GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1938
ANSWERED ON:26.07.2002
INTEREST CHARGED BY BANKS
UMMAREDDY VENKATESWARLU

Will the Minister of FINANCE be pleased to state:

(a) whether RBI has asked banks to charge interest on a quarterly basis instead of a monthly basis;

(b) whether companies had represented to the RBI in this regard;

(c) if so, whether banks will be asked to refund the difference in interest charged to customers;

(d) to what extent have banks resorted to unethical practices by forcing their clients to pay interest monthly; and

(e) the steps proposed to be taken to check such practices being done by commercial banks ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI ANANT G. GEETE)

(a) Yes, Sir. Reserve Bank of India vide its directions dated 9th March,2002 advised the banks that with effect from April, 2002, they should switch over to the system of charging interest on loans/advances at monthly rests. However, subsequently it was clarified vide circular dated 28th May 2002, that banks should not compound interest at monthly rests till March 31, 2003 and move over to monthly compounding only from April 1, 2003.

(b) No, Sir.

(c) Banks have been advised to ensure that the effective rate does not go up merely on account of switch over to the system of charging of interest on monthly basis.

(d) The interest is being charged as per RBI guidelines only.

(e) Does not arise.